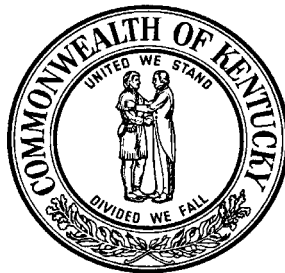


**SPECIAL REPORT ON
EXPANDED USE OF DIRECT DEPOSIT
FOR STATE PAYMENTS**

August 4, 2005



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

August 4, 2005

Honorable Jonathan Miller
Kentucky State Treasurer
701 Capitol Avenue, Suite 183
Frankfort, KY 40601

Dear Treasurer Miller:

The Auditor of Public Accounts is transmitting this report for your consideration outlining potential administrative savings of over \$589,000 on an annual basis by adopting electronic fund transfers for various state payments, primarily payroll checks. The estimated savings are very conservative based on a national study by The National Automated Clearing House Association. The Personnel Cabinet is currently in the process of designing a new payroll and personnel system that provides an opportunity to evaluate implementing this report.

This study was prompted by a request from your office to investigate lost payroll checks in December 2004.

I also want to note that the expansion of direct deposit should be carefully evaluated to assure that efficiency and cost savings are weighed against creating a hardship for employees and other recipients of state payments.

Please feel free to contact John Cubine, my office, or me if any additional information is needed. I want to thank you and your staff for the cooperation in preparing this report.

Sincerely,

Crit Luallen
Auditor of Public Accounts

c: Erwin Roberts, Secretary, Personnel Cabinet
Robbie Rudolph, Secretary, Finance and Administration Cabinet



Introduction

In December 2004, payroll checks, designated for two (2) Cabinet for Health and Family Services (CHFS) local offices, were mishandled and several employees did not receive payment in the normal course of business. As a result of this situation, the APA, at the request of the Kentucky State Treasurer, reviewed procedures for distributing payroll checks to state agencies and mailroom controls at CHFS. The Kentucky State Treasurer processes checks for 43,272 state employees each pay period of which 26,754 are paid through direct deposit and the remaining 16,518 receive a check.

The Kentucky State Treasurer's (Treasury) role in the disbursement of state money is to process checks or electronic payments for every disbursement authorized by the Finance Cabinet, and to monitor and reconcile the state's central bank accounts. Disbursements are made either by check, by electronic transfer through the Automated Clearing House (ACH), or by same-day electronic transfers by Fedwire Disbursement data. The check or electronic transfer number assigned by the central accounting system (MARS), is downloaded from the MARS server to the Treasury's printers each day. The disbursement numbers assigned by MARS constitute the "warrant" from the Finance Cabinet authorizing payment. Depending on the instructions transmitted with the MARS data set, the printed checks are either mailed directly by the Treasurer or returned to the initiating departments for mailing. Treasury delivers the ACH data to Farmers Bank via electronic data. The Fedwire transfers are transmitted by the Treasury to Farmers Bank through the bank's Execubank System to be entered into the national Fedwire System for same day payment. Payment registers for checks and ACH transactions are generated by the MARS accounting system, and are available if needed in Document Direct. The Treasury produces registers for manual payroll and for Fedwire transfers through Execubank. Registers are available for all disbursements, either through the Treasury's records or through the MARS-generated documents found in Document Direct.

Checks are handled numerous times before they are actually distributed to employees on payday. Checks are picked up by various state agencies where they are processed again and either stored in a safe or mailed to employees who work outside of Frankfort. Those checks that were stored in a safe are then handled again during distribution.

Based on the results of our review and discussions with various states and agencies that either use direct deposit, or some form of electronic function, we recommend significant consideration be given to requiring increased use of direct electronic deposit of funds for state payroll and travel reimbursement obligations. We further recommend consideration of increased usage of electronic payment of tax return refunds and unemployment insurance checks as well as other state payments.

Direct Deposit

Direct Deposit is a safe and convenient method to automatically deposit all net earnings of a particular employee into the financial institution of the employer's choice. Once the employee enrolls, all payments, including supplemental payments such as overtime, are transferred to the financial institution. The payment can be divided among several different accounts and, in many cases, among different financial institutions. A growing number of employers are using direct deposit to pay employees. In the United States about 71% of workers who have direct deposit made available to them use it. In Europe more than 90% of workers use direct deposit and almost 100% of Japanese workers use it. More commonly, private employers use direct deposit to pay their employees, but it is also increasingly used by government entities to pay out benefits. About 78% of Social Security and SSI recipients use direct deposit.

State governments routinely offer direct deposit as an option to employees and participation rates vary. Most do this as a convenience to their employees, but due to potential cost savings some states have taken the extra step to mandate the use of direct deposit by all state employees. In some states, law does not allow this type of mandate, but it is not currently prohibited in at least 14 states including Kentucky. The following states have implemented some type of mandatory direct deposit program for state employees:

- Colorado
- Louisiana
- Florida
- Ohio
- Oklahoma
- South Dakota

Each of these states is at different stages of implementation of their mandatory direct deposit programs. Florida, for example, began in 1996 requiring all new employees to participate and all employees, old and new, have had to participate since July 1, 2000. More recently, Oklahoma began requiring all employees hired after December 31, 2004 to participate in direct deposit, while employees hired prior to that date are not required to comply until June 30, 2007. The Ohio legislature passed a law in 2002 making direct deposit mandatory for all new employees hired after June 15, 2002, but because of legal restrictions and resistance by a unionized state workforce, implementation has not yet occurred.

Advantages of Direct Deposit

Potential benefits for moving from a check system to an electronic system includes:

1. Reduction in the cost of printing checks, storing checks and bank charges.

As part of our study, we determined that the Treasury Department issued 7,191,669 checks during the 2004 fiscal year. Included in that number were 1,161,239 payroll checks (515,751 checks and 659,350 stubs); 1,209,675 Unemployment Insurance checks; 1,028,676 tax refund checks, and 15,069 travel checks.

Our analysis consisted of an estimate in the cost of printing payroll checks, making ACH transactions, and related bank charges that totaled to approximately \$96,663 per year in costs to the state. This cost amount would be similar for Unemployment checks and tax refund checks, as about the same number of checks were issued during FY 2004. (See Appendix A)

In addition, we determined an approximate cost, based on our payroll survey, for those employees - payroll officers - whose function is to in some way handle the receipt and delivery of checks to various locations throughout the state. That annual estimated cost was calculated annually, including the cost of couriers to pick up and distribute checks. (See Appendices B and C)

2. Facsimile signature security isn't necessary with Direct Deposit since no signatures are required.
3. Direct deposit is fast, safe, confidential, and convenient. It can help users manage personal finances as well.
4. Lost and stolen checks are eliminated.
5. The potential for errors is reduced because Direct Deposit requires less manual handling than a check.
6. Account reconciliation is simplified. The state's account statement will have a single type dollar amount to the total of the direct deposit transactions, rather than check amounts to reconcile.
7. Direct deposit would reduce handling and processing at state agencies and be a convenience to employees. Agencies should encourage employees to take advantage of direct deposit, especially employees who work at remote locations from Frankfort. With direct deposit, even if check stubs were lost in the mail, the money would be in the bank on payday.
8. Paperless environment.
9. Fraud is reduced because there is less potential for counterfeit checks, stolen checks or signature plates, altered amounts, and forged signatures.
10. Productivity can be increased due to employees spending less time away from work to cash or deposit a check.

11. There is considerably more security and control with an electronic transaction. The payor is in complete control of the transaction from beginning until deposited into the banking system. At this stage the transaction is part of an ACH transaction and is not handled by multiple human beings. Once the transaction is entered into the ACH system, reasonable computer security controls are applied to the transmission and handling of the entire file. Human intervention will only occur in cases where an item may be an exception and must be processed outside of the ACH system. Thus, the amount of electronic fraud is significantly less than frauds that may be committed with the use of checks.

Disadvantages of Direct Deposit

While the cost savings and convenience of direct deposit are evident, there are some problems that can arise. These problems are typically solved on a case-by-case basis depending on the employee.

Possible Problems Faced by an Employer Implementing Mandatory Direct Deposit

- In order to take part in a direct deposit program, an employee needs access to a bank account where their paycheck will be electronically deposited. Some employees may have a credit history that precludes them from obtaining a traditional bank account. Without a bank account, an employee would have no way to accept an electronic deposit.
- In a less likely situation, an employee may live in an area where neither a bank nor an ATM machine is readily available for an employee to withdraw their paycheck from their bank account.
- Some employees may also resist to being required to participate in direct deposit. While the reasons for this resistance can vary depending on the employee, they typically include an employee's fear of providing the employer with their bank account number, they may feel they have more control over their finances when they receive a paper check or they may simply want to go to the bank.

Experience in Other States

With the exception of Ohio, state governments we reviewed with mandatory direct deposit programs provide a waiver to the employee for any of the problems noted above. The process for an employee to obtain a waiver varies by state. The following notes those states with such a process and a description of their requirements.

- **Colorado** - The employee may request a waiver from the State Controller's Office. The office reviews the request and determines if an exemption is necessary. The primary employees to receive an exemption are seasonal employees working in the state parks.

- **Louisiana** - An employee may request a waiver by completing and submitting the proper form. Both a department head and the Office of State Uniform Payroll must approve this form. Criteria for approval may include “geographical barriers, physical/mental disability barrier, or inability to establish an account at any financial institution.” Seasonal employees are typically the largest number of waiver recipients. Louisiana reported a direct deposit participation rate of 99%.
- **Florida** - An employee may qualify for a waiver if he or she can demonstrate a hardship related to direct deposit.
- **Oklahoma** - Temporary, seasonal, or student employees may be exempt at the discretion of the employing agency. Other employees wishing to be exempt must file a written application identifying extraordinary circumstances that would prevent them from participating in direct deposit. Their employing agency will make the decision whether to grant an exemption.
- **South Dakota** - Seasonal employees may receive an exemption depending on the policies of the individual agency. South Dakota reported a direct deposit participation rate of 99.8%.

By providing an employee the option of receiving a printed check an employer can avoid problems employees may experience with direct deposit; however, this method diminishes some of the cost savings and conveniences provided by a move to full direct deposit participation. Another possible solution is a “payroll card” that was implemented by several states. A payroll card is issued to an employee and can be used in a similar fashion as a debit card, except there is no requirement for a bank account. During the electronic fund transfer, the employee’s paycheck is deposited to the payroll card. This allows an employee to go to any bank or ATM machine to withdraw cash providing the same results as cashing a check. They may also use it at any vendor that accepts debit cards.

There are some problems associated with payroll cards such as fees for withdrawing cash and making purchases or a limit for the number of transactions that can be made. This can cause even greater resistance by some employees, but at least one state was able to implement payroll cards without any fees or costs to the employees.

South Dakota has a contract with the state bank that provides any state employee with a payroll card that has none of the fees typically associated with the payroll cards. This allows an extremely rural state like South Dakota to provide their state employees the option of direct deposit. This has resulted in their very high participation rate of 99.8%.

States Find Largest Cost Savings in Electronic Pay Stubs

In addition to the use of electronic fund transfers to save money and time when paying state employee salaries and wages, some states have begun to use mandatory electronic pay stubs to turn the payment process into a completely paperless environment. Those states reviewed by the APA that were implementing this paperless process typically noted that their greatest amount of cost savings came from this change. These cost savings were typically caused by no longer needing to purchase machinery, paper, ink or any other cost associated with the printing of paper pay stubs. It also removed the need for state personnel to hand deliver or mail paper pay stubs.

Any employer can use an electronic pay stub even if the employer still provides paper pay stubs and checks. It is simply an electronic representation of what an employee would receive in paper form. It may be sent to the employee by email or accessed through a website, but they are always password protected and of course require the use of a computer. In this form the electronic pay stub does not offer savings to an employer, it merely provides a convenience to the employee. For example, Kentucky currently makes an electronic pay stub available, but because paper pay stubs are still printed and distributed it is not required that a state employee use the electronic version.

Other states such as Louisiana and South Dakota have made both direct deposit and electronic pay stubs mandatory for their employees. Colorado plans to implement a similar program by the end of the calendar year. All three of these states believe that the electronic pay stub, in conjunction with direct deposit, is the best way to increase efficiency and reduce costs associated with the payment of employees salaries and wages.

Possible Problems and Solutions Faced by an Employer Implementing Mandatory Electronic Pay Stubs

As with direct deposit, there are some problems that may need to be overcome by an employer trying to establish a paperless environment by using mandatory electronic pay stubs. The main issue is the employees' need for a computer to access either emails or the Internet so that they may view their electronic pay stub. This is typically not a problem for typical office employees that most likely have a computer assigned to them or at least immediate access to one. For those employees who do not work in this type of environment such an option may not be initially available. In order to rectify this situation those states that have implemented these programs will typically just install computer kiosks so that employees can log on to their account and access their pay stub. As another option, at least one state has provided exemptions for any state employee who does not have a state email address.

A secondary issue continues to be the hesitancy of employees to embrace an electronic environment. Whether this hesitancy comes from a distrust of their personal information being electronically available or simply a desire to continue to receive a tangible stub or pay check, it is typically the opinion of the implementing states that the benefits far outweigh these concerns.

Some states have even shown that an electronic pay stub is actually more useful to an employee than a paper pay stub. South Dakota has initiated a “self-service” website that allows employees to access their accounts to not only view their pay stubs over a period of several years, but they can also manage the accounts that their pay checks are going to during direct deposit. Employees can have their payments split into as many as five separate bank accounts and since South Dakota also uses payroll cards an employee may opt to have all or part of his or her payment go to this as well. They have the ability to change the amount that goes to each of these accounts any time they see the need. This can even be done during the period without any type of disruptions. Additionally this provides a greater cost savings to the state, because the employee is actually completing a task that had to be performed by personnel staff previously.

APA Survey Methodology

As part of our review, we surveyed all Kentucky Executive Branch state agencies to determine an estimated cost for collecting and distributing payroll checks. Over 80% of the agencies responded to the survey. Our survey and the results of that are included as Appendices D and E.

Projected Savings per Payroll Survey

Estimated Annual Cost Savings for Payroll Checks per APA (Hard Savings)

• Check Distribution Costs	\$370,000	<i>1</i>
• Savings of Bank Charges	\$ 25,787	<i>2</i>
• Check Printing Costs	\$ 14,000	<i>3</i>
• Courier Costs	\$ 13,000	<i>4</i>
Total	<u>\$422,787</u>	

Other Estimated Potential Savings by Switching to Direct Payments for other State Payments

• Travel Checks on Direct Deposit	\$15,000	<i>5</i>
• UI Checks	\$38,400	<i>6</i>
• Tax Refund Checks	\$30,000	<i>7</i>
• Child Support Checks	\$70,400	<i>8</i>
• Medicaid	\$13,000	<i>9</i>
• Treasury Operations		<i>10</i>
• State Vendors		<i>11</i>
• Reduced Float on Payroll		<i>12</i>
Total	<u>\$166,800</u>	

Total Known Potential Savings	<u>\$589,587</u>
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1. Per APA Survey
2. Per Workpaper .050x # of checks
3. Per Workpaper .035x # of checks
4. Per Workpaper Treasury estimate
5. Based on cost per payroll check of \$1.00 x # of travel checks
6. # of checks x .032 EFT Savings
7. # of checks x .032 EFT Savings
8. # of checks x .032 EFT Savings
9. # of checks x .032 EFT Savings
10. Undeterminable – future savings due to attrition and re-engineering
11. Policy needs to be developed for State vendors payments
12. Subject to timing of bank transfers, minimal interest could be lost per Treasury

Note: The estimated savings reflect the new bank charges effective 7/1/05 which reduce ACH fees for payroll and slightly increase charges for other ACH transactions. The above savings do not reflect increased bank processing fees for paper checks which would further increase projected savings.

Other Options

Our estimates, for purposes of this study, are made primarily for only payroll checks. The use of EFT has applicability to state payments other than payroll. The most popular application of Direct Deposit is for payroll, but it can also be used for many other types of payments, including:

- Annuities
- Pensions
- Travel expense settlements
- Vendor payments
- Income tax refunds
- Unemployment Insurance and other assistance type payments
- Medicaid benefits
- Child Support payments - (The Minnesota Department of Human Services and the Oregon Department of Justice, Division of Child Support, now provides funding by Direct Deposit rather than sending a check).

These payroll payments constitute 7% of the approximate 7.1 million checks prepared annually. However, these savings are more modest since it is assumed that these payments will require some form of remittance, thereby, still requiring mailing costs.

Type of Payments	Percentage to Total
Payroll	7%
Medicaid	6%
Unemployment Insurance	17%
Tax Refunds	13%
Vendor Payments	21%
Child Support	28%
Other	8%
Total	100%

*Source: Account payment summary provided @
Appendix E.*

Special Report on Lost December 2004 Payroll Checks

The circumstances of the problem with the lost checks are documented below.

Process

Treasury receives the data sets from Personnel and all employees with a P1 in the system should receive a paycheck. Treasury creates various types of tapes and printouts that go to the bank each pay period: a printout from MARS that produces checks and stubs; a printout that produces check stubs for those that have their checks deposited electronically; and, a tape that goes to Farmers Bank for direct deposit transactions.

Events Surrounding Lost Payroll Checks

The payroll checks for December 15, 2004 were generated at Treasury during the first week of the month. The checks are divided by department number, packaged, and e-mails or calls are made to the payroll officers at the various state agencies to let them know that payroll is ready to be picked up.

The original checks were signed out at Treasury on or about Thursday, December 8. They were delivered directly to the Division of Personnel - 4th Floor at CHFS, on Main Street, Frankfort. The original checks were processed, packaged, and mailed out from Frankfort on December 9.

The original checks were never received at the CHFS Newport office. Payroll personnel at CHFS requested a stop payment issuance for the original checks on Thursday, December 16, since payroll is normally always delivered to the local offices a few days prior to payday. The stop payment did not go into effect until Friday, December 17 because Treasury wanted to make sure the checks were not late due to the increased volume during the holiday season.

The first set of duplicate checks was picked up by CHFS personnel from Treasury on Monday, December 20. They were marked by CHFS personnel for UPS overnight delivery and taken to the CHFS mailroom for the 4 p.m. pickup. The checks were taken to the Finance mailroom on Wilkinson Street, Frankfort, where someone marked out the UPS overnight delivery and put regular postage on them to send them through the regular mail. The Newport office notified CHFS on Tuesday, December 21 that they did not receive the first set of duplicate checks and needed a second set of duplicate checks.

The first set of duplicates could not be cancelled or a stop payment issued for 30 days. Before the second duplicate checks were issued, Treasury required CHFS to sign an agreement ensuring that CHFS would reimburse the \$23,000 in checks if they were redeemed prior to a stop payment issuance at the end of the 30 days. The second duplicates were prepared and hand-delivered to the Campbell County Office on December 22.

All of the first set of duplicates were recovered, voided, and sent back to CHFS. The original checks were returned to Treasury approximately two weeks after the incident.

Cabinet for Health and Family Services Check Distribution Process:

CHFS employee picks up the checks at Treasury and delivers them directly to the Division of Personnel - 4th Floor at CHFS. When received from Treasury, checks are disseminated to six workers who divide them up into the 16 service regions, which includes all 120 counties. CHFS payroll checks are marked with a number that is assigned to each service region and each worker handles a specific region. Each service region is assigned a specific check distribution number and the employees pull all of the checks with a given distribution number for processing. Checks are separated by the distribution numbers and packaged for mailing to each local office. The workers pull from two groups: check stubs for EFT deposits and actual checks. Both groups are combined for each county and put into an envelope and sealed.

Payroll checks are mailed as soon as processing is complete (separating, processing, and mailing the checks is completed the same day). Once processing is complete the envelopes are loaded onto a cart and taken downstairs to the mailroom. The sealed envelopes are left with the mailroom clerk, until the Finance Mailroom courier picks them up.

Events Surrounding December 2004:

All checks are sent via UPS Next Day Air. The first set of duplicate checks were returned to CHFS. The first set of duplicate checks were marked to be sent UPS Next Day Air, but when the envelope was returned to them, the postage stamp was defaced and marked with "Regular Mail."

Finance Mailroom - Wilkinson Blvd. Process:

The Finance Mailroom was consolidated into one mailroom with 42 employees that went into effect on November 10, 2004. Prior to consolidating the process, there were five separate mailrooms that processed mail for state agencies. The consolidation may save money, but the mail processing and delivery was more efficient when there were five separate mailrooms. Mailroom employees process approximately three million pieces of mail each month.

There are four mail carriers that deliver mail to the CHFS building and each mail carrier has an assigned floor. The mailroom does two runs to the CHFS building per day: one at 7:30 a.m. and again at 1:30 p.m.

All payroll envelopes are sent via UPS for faster delivery than regular mail and the ability to track the delivery status online.

Summary:

The events involving these lost checks are illustrative of the multiple handling of payroll checks that occurs twice a month in many state agencies.

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APPENDIX A

NACHA Study

National Automated Clearing House Association (NACHA) is the leading organization in developing electronic solutions to improve the electronic payments system. NACHA represents more than 12,000 financial institutions through direct memberships and a network of regional payments associations, and 650 organizations through its industry councils. NACHA develops operating rules and business practices for the Automated Clearing House (ACH) Network and for electronic payments in the areas of Internet commerce, electronic bill and invoice presentment and payment (EBPP, EIPP), e-checks, financial electronic data interchange (EDI), international payments, and electronic benefits transfer (EBT).

To further support the theory of significant cost savings with a move into electronic payments, a recent study by (NACHA) estimated a cost savings of \$1.2 million in Kentucky by moving to a direct deposit system for paying employees.

	<u>Checks</u>	<u>Direct Deposit</u>
Checks mailed based on agency survey	32,695	32,695
Average cost per transaction (NACHA Study)	\$1.90	\$0.35
Estimated cost each pay period	\$62,120.50	\$11,443.25
Total number of pay periods	24	24
Estimated annual cost	<u>\$1,490,892.00</u>	<u>\$274,638.00</u>
Estimated annual savings in using direct deposit	<u>\$1,216,254.00</u>	

Source: Cost estimates obtained from a study conducted by the National Automated Clearing House Association

In preparing this report we reviewed data prepared by NACHA on utilizing EFT. The NACHA data would suggest savings of almost 84% higher than the APA projected savings. We feel the estimate utilized by the APA is very conservative; however, we feel the NACHA study includes some soft savings, which would be virtually impossible to quantify or capture including employee time for cashing payroll checks.

Bank charges during 2004	# of Payroll Transactions Processed		Bank Charges			Check Stubs
	Checks	ACH	Total	Checks 0.0675	ACH 0.0350	Total Charges
January	28,174	54,354	82,528	\$ 1,901.75	\$ 1,902.39	\$ 3,804.14
February	41,887	54,441	96,328	\$ 2,827.37	\$ 1,905.44	\$ 4,732.81
March	48,437	54,742	103,179	\$ 3,269.50	\$ 1,915.97	\$ 5,185.47
April	34,651	55,071	89,722	\$ 2,338.94	\$ 1,927.49	\$ 4,266.43
May	40,754	56,913	97,667	\$ 2,750.90	\$ 1,991.96	\$ 4,742.85
June	38,235	59,525	97,760	\$ 2,580.86	\$ 2,083.38	\$ 4,664.24
July	38,819	59,038	97,857	\$ 2,620.28	\$ 2,066.33	\$ 4,686.61
August	44,497	58,838	103,335	\$ 3,003.55	\$ 2,059.33	\$ 5,062.88
September	34,162	58,637	92,799	\$ 2,305.94	\$ 2,052.30	\$ 4,358.23
October	38,468	58,585	97,053	\$ 2,596.59	\$ 2,050.48	\$ 4,647.07
November	37,574	58,604	96,178	\$ 2,536.25	\$ 2,051.14	\$ 4,587.39
December	47,482	59,351	106,833	\$ 3,205.04	\$ 2,077.29	\$ 5,282.32
Totals for 2004	473,140	688,099	1,161,239	\$ 31,936.95	\$ 24,083.47	\$ 56,020.42
Average	39,428	57,342	96,770	\$ 2,661.41	\$ 2,006.96	\$ 4,668.37
Average - % of checks/ACH	41%	59%		57%	43%	

Bank Charges for 2004:

Total Bank Charges	\$ 56,020.42
Total Check Stubs	\$ 40,643.37
Total for Bank Charges & Stubs - 2004	\$ 96,663.79

Savings in bank charges	\$ 15,377.06
Savings from not printing check stubs	\$ 40,643.37
Total	\$ 56,020.43

Highlighted Items:

Monthly payroll activity based on bank statements.
Transaction charges from Treasury's contract with Farmer's Bank and Capital Trust Company
Total annual bank charges for Regular Payroll (checks & ACH transactions) based on monthly statements
from Farmers Bank & Capital Trust Co.
The rate for paper stock & printing paper checks - based on Treasury's printing contract.

APPENDIX B

#	Agency:	Employees	Hours	# checks
1	Administrative Office of the Courts	5	3.00	3,500
2	Agriculture	2	4.50	150
3	Attorney General's Office	2	1.50	19
4	Auditor of Public Accounts	2	1.00	56
5	Board for Respiratory Care Practitioners	1	0.50	3 π
6	Board of Accountancy	1	0.50	5 π
7	Board of Auctioneers	1	0.50	9 π
8	Board of Chiropractic Examiners	1	0.25	3 π
9	Board of Dentistry	1	0.50	3 π
10	Board of Embalmers & Funeral Home Directors	1	0.25	3 π
11	Board of Examiners & Registration Landscape Architects	1	0.50	3 π
12	Board of Examiners and Registration Architects	1	0.50	3 π
13	Board of Hairdressers and Cosmetologists	1	1.00	7 π
14	Board of Medical Licensure	1	0.50	3 π
15	Board of Nursing	1	0.50	3 π
16	Board of Optometric Examiners	1	0.50	2 π
17	Board of Pharmacy	1	0.25	3 π
18	Board of Physical Therapy	1	0.25	2 π
19	Board of Real Estate Appraisers	1	0.50	5 π
20	Board of Registration Engineers & Land Surveyors	1	0.50	1 π
21	CHFS-DCBS	100	75.00	4,560
22	CHFS-Disability Determination Services & All others	48	25.00	2,500
23	CHFS-MHMR Facilities & OHRM	48	50.00	2,118
24	CHS-ODQI	13	6.50	55
25	Commission on Human Rights	2	0.50	36
26	Council on Postsecondary Education	3	4.00	4
27	Department for Environmental Protection	13	3.75	285
28	Department for Libraries and Archives	2	1.00	14
29	Department of Corrections	60	28.00	3,483
30	Department of Criminal Justice Training	1	0.50	8
31	Department of Education	1	1.00	290
32	Department of Fish and Wildlife	1	3.00	335 Ω
33	Department of KY Vehicle Enforcement	3	1.00	199
34	Department of Military Affairs & National Guard	14	22.50	183
35	Department of Public Advocacy	1	3.00	325
36	Department of Veterans Affairs (Western KY)	1	6.00	0
37	Department of Juvenile Justice	3	3.00	1,147
38	Economic Development Cabinet	2	1.50	40
39	Education Cabinet	5	3.00	2,500
40	EPPC-Housing, Buildings & Construction	1	0.50	184
41	FAC-Division of Occupations and Professions	1	0.50	0
42	FAC-Local Government	26	1.00	2,000
43	FAC-Office of PVA's	4	3.00	750
44	General Assembly	2	2.00	138
45	Governor's Office for Local Development (GOLD)	6	6.00	10
46	Justice Cabinet-Office of the Secretary	2	15.00	104
47	Kentucky Arts Council	1	0.25	0
48	Kentucky Board of Barbering	1	1.50	15
49	Kentucky Heritage Council	1	0.50	0
50	Kentucky Historical Society	1	1.00	7
51	Kentucky Horse Park	1	0.25	0
52	Kentucky Real Estate Commission	1	0.75	18
53	Kentucky State Fair Board	2	4.00	3
54	Kentucky State Police	1	7.50	1,247
55	Parks, Commerce, Ky Artisans Center, & Tourism	2	2.00	1,238
56	Personnel Board	1	0.50	0
57	Personnel Cabinet	1	4.00	5
58	Personnel Office of the Secretary	1	2.50	5
59	Registry of Election Finance	2	1.00	0
60	Secretary of State	1	1.00	0
61	State Board of Elections	2	1.00	6
62	Transportation Cabinet	80	84.50	4,000
63	Treasury	5	15.00	
64	Unified Prosecutorial System	2	8.00	1,100
		496	416.00	32,695
		\$	18.00	\$ 0.37 Δ
		\$	7,488.00	\$ 12,097.15

	496	416.00	32,695	32,695
	\$	18.00	\$ 0.37	Δ 0.39
	\$	7,488.00	\$ 12,097.15	\$ 12,751.05
	\$	179,712.00	\$ 290,331.60	\$ 306,025.20
Remaining number of state employees		5,000.00	\$ 37,695.00	
		\$ 1,850.00		
		\$ 44,400.00	\$ 46,800.00	
Seasonal employees		1,800.00		
		\$ 666.00		
		\$ 15,984.00	16,848.00	
		\$ 350,715.60	\$ 369,673.20	

Ω The total employees at Parks Dept. can go as high as 2,500 during peak season months - mid March through September
During peak season they have over 600 employees

π The frequency of board meetings & members varies for each licensing board as specified by KRS.

Δ Estimated cost - assuming a .02 cent increase in the USPS Regular Mail

Assumptions: The average state employee makes \$18 per hour. The expenditure code for postage in the MARS system is E241, but this includes all postage so it isn't an accurate measurement of the actual cost for mailing payroll checks. The auditor applied the .37 rate for regular mail; however, the majority of the state agencies surveyed use either UPS Next Day Delivery or Priority Mail for tracking purposes. Some small agencies outside Frankfort also indicated they sometimes send an employee to Treasury on payday to pick up the agency checks rather than using the postal system or messenger mail.

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APPENDIX C

Agency travel time to pick up checks		Estimated	
Source: Eugene Harrell - Treasury		Cost	
Assuming a 9 mile round trip to Treasury	9	\$ 0.375	\$ 3.38
Time (minutes)	30	\$ 18.00	\$ 9.00
			\$ 12.38
Agency couriers picking up checks	45		\$ 556.88
Total # of pay periods	24		\$ 13,365.00

Standard mileage rate from the IRS website at <http://www.irs.gov/publications/p463/ar01.html>

The average state employee makes \$18 per hour - refer to the Personnel Cabinet's salary schedule.

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APPENDIX D



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Subject: State Agency Survey

Good Morning...

The Auditor of Public Accounts is conducting a survey of payroll and personnel officers at state agencies to determine how much time and resources are spent handling, processing, and distributing paychecks in a pay period. The results, when received, will be summarized and recommendations will be made to improve efficiency. Give your best estimate for each question. We would appreciate a response by Friday March 25, 2005.

Agency: _____

1. How many agency employees are involved in handling, processing, and distributing paychecks? (For example, from the time the paychecks are either picked up or delivered from Treasury and then given to the employees.)
2. How many hours are spent in a pay period handling, processing, and distributing paychecks?
3. How many paychecks (checks and stubs) are sent through the mail in a pay period?

Thanks for your time and responses.

Auditor of Public Accounts
105 Sea Hero Road, Suite 2
Frankfort, KY 40601



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APPENDIX E

PAYMENTS DURING FY 2004

Account	Account Name	Type	Checks		ACH		Wires	
			Count	Amount	Count	Amount	Count	Amount
A1	TANF	CE			1,355	257,584.00		
A1	TANF	CW	67,879	14,306,570.00				
B1	Business Tax	CE			22	148,703.33		
B1	Business Tax	CW	14,497	100,323,909.68				
C1	County Retirement	CE			240,450	173,436,919.10		
C1	County Retirement	CW	104,569	77,578,007.38				
C1	County Retirement	MW					65	38,555,000.00
E1	Error Tax	CW	91,991	35,904,006.71				
G1	General Depository	AD	597,484	3,486,195,966.25				
G1	General Depository	CE			21,252	56,570,364.23		
G1	General Depository	CW	901,493	595,927,371.49				
G1	General Depository	EF			69,264	3,617,374,352.90		
G1	General Depository	MW					3,641	11,472,752,253.17
H1	Ky. Hazardous	CE			15,547	11,784,765.97		
H1	Ky. Hazardous	CW	3,418	5,728,853.46				
H1	Ky. Hazardous	MW					22	4,325,000.00
I1	KERS Insurance	CW	248	198,874.31				
I1	KERS Insurance	ME					141	280,851,577.91
J1	KTRS Insurance	CW	824	3,780,130.27				
J1	KTRS Insurance	MW					25	196,101,119.54
K1	Ky. Retirement	CE			272,602	333,151,041.85		
K1	Ky. Retirement	CW	80,780	110,702,051.34				
K1	Ky. Retirement	MW					67	59,645,000.00
L1	Labor Special Fund	CE			48,984	17,864,764.31		
L1	Labor Special Fund	CW	200,832	64,522,304.66				
M1	MEDICAID	CW	406,110	3,194,632,788.58				
N1	Manual Payroll	MW	7,914	2,798,876.83				
P1	Payroll	CE			659,350	567,884,919.72		
P1	Payroll	CW	515,751	393,594,032.87				
Q1	KERS Clearing	MW					685	548,907,502.99
R1	Teachers Retirement	CE			402,303	730,275,055.21		
R1	Teachers Retirement	CW	28,869	162,908,052.58				
R1	Teachers Retirement	MW					760	41,616,308,785.54
S1	State Police	CE			10,364	23,665,871.00		
S1	State Police	CW	1,706	6,690,581.99				
S1	State Police	MW					20	1,580,000.00
T1	Tax Refunds	CE			283,885	111,891,866.00		
T1	Tax Refunds	CW	922,188	286,329,033.46				
U1	UI Benefits	CW	1,209,675	549,479,525.00				
V1	UI Collections	MW					123	327,378,471.80
W1	Treasury MW	MW	366	1,490,947.19				
W2	PS Contracts	MW					1,845	0.00
X1	KERS X Benefits	CE			131	102,253.93		
X1	KERS X Benefits	CW	33	46,467.13				
Y1	Child Support	CE			683,494	90,030,328.30		
Y1	Child Support	CW	2,026,657	246,175,004.57				
Z1	County Hazardous	CE			40,851	60,856,643.71		
Z1	County Hazardous	CW	8,385	20,848,899.69				
Z1	County Hazardous	MW					44	16,620,000.00
	Total		7,191,669	9,360,162,255.44	2,749,854	5,795,295,433.56	7,438	54,563,024,710.95
	Percentage of Total		72.29%	13.43%	27.64%	8.31%	0.07%	78.26%